

6 Distributing Overhead Costs Table of Contents

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Distributing Overhead Costs

What is Overhead?

Overhead is the cost incurred for expenses not directly related to program delivery, such as expenses incurred by the Agency, and/or the Department. These include but are not limited to administrative and Departmental charges, central services, legislative and public affairs, office of the administrator, and training initiatives. APHIS is not given appropriated dollars specifically for these costs. The costs must be shared within the Agency from the appropriated line items and other funding sources.

To understand the idea of overhead cost distribution, you need to understand:

- ◆ How APHIS is structured,
- ◆ How we receive and allocate our funding,
- ◆ How we charge obligations in the FFIS system,
- ◆ How we include overhead costs in our fees and charges, and
- ◆ How we record revenue in FFIS.

This chapter will walk through these processes, then explain the mechanics of how APHIS currently distributes overhead.

How APHIS is Structured

Thinking of APHIS organizations as either program units or support units is helpful for understanding cost distribution. Program units such as Animal Care, Wildlife Services, International Services, Plant Protection and Quarantine (PPQ),

How APHIS is Structured (Continued)

and Veterinary Services, carry out the basic mission of APHIS, that of promoting the health of animal and plant resources in the United States. Program units generally receive the bulk of their funding directly from specific appropriated line items.

APHIS support units provide various services to the Agency. Current APHIS support units are:

- ◆ Civil Rights Enforcement and Compliance (CREC),
- ◆ Marketing and Regulatory Programs-Business Services (MRP-BS),
- ◆ Legislative and Public Affairs (LPA),
- ◆ Office of the Administrator (OA), and
- ◆ Policy and Program Development (PPD).

Examples of services these organizations provide are: resolving employee complaints and grievances, providing the Agency with the latest information technology, addressing legislative and public affairs specific to Agency programs and personnel, providing accounting and budgeting expertise for the Agency, providing global training initiatives, and providing the Agency with policy and program development. APHIS does not receive a separate line item appropriation to fund these support activities.

How We Receive and Allocate Our Funding

As outlined in Chapter 3 of the Budget and Accounting Manual, APHIS receives its funding from a variety of sources, including: annual and no-year appropriations, user fee revenue, reimbursements from State and local governments and other Federal agencies, and emergency transfers.

During the allocation process, APHIS determines how to allocate or divide up that funding among organizations and activities in the Agency. The method and rate of allocating funding varies from fund to fund and unit to unit. Refer to Chapter 4, Planning Documents, for a discussion on allocating funds.

**How We Receive
and Allocate Our
Funding
(Continued)**

Program units receive funding from appropriated line items specific to the functions they conduct. In addition, they receive an allocation based on the estimated revenue they will receive for user fees, reimbursable agreements, reimbursable overtime, and trust fund activity. This estimated revenue will include an amount to cover their direct costs for providing services, as well as program level overhead. The program units are responsible for the use and internal allocation of these funds. Program units receive their allocations broken out by separate line items.

Support units receive funding through a process of assessing each appropriated line item to finance support services (Chapter 4, Planning Documents, for more detail). A portion of the support units' base also is financed with overhead from user fees, reimbursable overtime, reimbursable agreements, and trust fund revenue. Even though the support units are funded by many sources, they receive their allocation in a lump sum, not broken out by various funding sources.

The budget formulation for the support units is developed through the SAF (Support Activity Funding) process. The support units annually identify and prioritize their funding needs and submit the requests to the AMT for approval. When the annual appropriation bill is signed, the funds are allocated to the support units based on the AMT decisions.

APHIS allocates some funds to finance activities that benefit or apply to all of the Agency, and are more easily managed at the Agency level. These activities are Departmental charges, central services, training initiatives, program delivery non-support assessments.

In the case of the Departmental charges, we include an amount in some of our user fees to recover the portion of the Departmental charge that supports that activity. When the revenue for the fees is received, we need to distribute those Departmental charges to match the revenue.

**How We Charge
Our Obligations**

Although APHIS funds the support units with a variety of sources, we choose to record the obligations initially in one fund (or Treasury symbol) for ease in reconciling and administering the accounts.

How We Charge Our Obligations (Continued)

We currently charge most of our support and overhead costs to the annual salaries and expenses appropriation. Consequently, at some point, we need to transfer the costs to the proper fund for external reporting and to accurately record costs.

How We Include Overhead Costs in Our Fees and Charges

APHIS uses a standard overhead rate to calculate overhead costs that we add to reimbursable, trust fund, and non-Agricultural Quarantine and Inspection (AQI) user fee charges. The current standard overhead rate is 13.9 percent of gross or total costs (or 16.15 percent of net costs). That percentage consists of 5.15 percent for Agency support and 8.75 percent for program support (5.98 percent for Agency support net costs and 10.17 percent for program support net costs).

We exclude the following funds from the calculation:

- ◆ Emergency programs;
- ◆ Funds that are not assessed as overhead such as the Integrated Systems Acquisition Project, contingency, Special Bollweevil reimbursements from the client agencies that MRP-BS supports, and that portion of reimbursable overtime excluded from overhead charges by the Airport and Airway Development Act;
- ◆ Activities performed by support units but considered program delivery, such as risk assessment projects in PPD; and
- ◆ A portion of departmental charges.

How We Record Revenue

In general, we record revenue in an accounting code within the program unit that provided the services. Almost all revenue received by APHIS includes an amount for overhead costs as well as direct costs.

Distributing Overhead Costs

APHIS accomplishes cost distribution through a variety of methods; however, we do not currently have a fully integrated, automated process to distribute costs within FFIS. We distribute some costs and record the general ledger impact in FFIS (at a summary level) and distribute other costs outside the system for reporting purposes only.

**Distributing
Overhead Costs
(Continued)**

Historically, the Minneapolis Financial Services Branch (MFSB) has calculated the overhead based on formulas provided by the Financial Systems and Services Branch (FSSB) and data enters the resulting debits and credits into FFIS to affect the transfers between APHIS accounts. (See Exhibit 6-1).

MFSB transfers support costs for user fee, trust fund, and reimbursable accounts from Agency and program support accounts each quarter by entering a B2 accounting adjustment document in FFIS. We do this to ensure that obligations in the accounting system match the revenue received and to transfer obligations between Treasury symbols.

MFSB transfers support costs from Agency and program support accounts to the AQI user fee account each quarter by entering a B2 accounting adjustment document in FFIS. PPQ and FMD work together to develop the amounts to transfer and prepare the B2 accounting adjustment document. We do this to ensure the accounting system supports the request to transfer revenue from the AQI User Fee Account at Treasury to APHIS. The overhead transfers can be seen recorded in object class 2558.

NFC distributes Departmental charges based on distribution percentages and accounting codes provided to NFC for each Departmental charge item. As obligations are bill/transferred to APHIS, NFC charges the obligations to the applicable fund (currently only X52 and X41, where "X" refers to the last digit of the fiscal year).

FMD distributes all other support costs at the end of the fiscal year by entering a B2 accounting adjustment document into FFIS. Support units record their obligations in Treasury symbol 12Y1600. FMD transfers obligations equal to the annual assessments from 12Y1600 to the other Treasury symbols. For example, if the Agency assessed \$100,000 from the Grasshopper Conservation Reserve Program (12X1600) for support costs, then we transfer \$100,000 from 12Y1600 to 12X1600 at the end of the year. Using this method, 12Y1600 absorbs any deficits or surpluses that result by comparing the assessed amounts with the actuals at year end.

**Distributing
Overhead Costs
(Continued)**

We generally transfer all support obligations at a summary level and record the impact in one or two object classes (usually 1100 or 1200). Although the support costs are composed of obligations for all object classes, over 92% of support costs are salary. We record cost distributions at the summary BOC in the accounting system when transferring obligations between Treasury symbols.

This process of charging one treasury symbol/accounting code and then distributing quarterly/annually is only appropriate in the cases discussed.

APHIS must direct charge expenditures to the proper treasury symbol/accounting code wherever possible. Charging expenditures to one accounting code, then making “adjustments” later to correct the accounting is not acceptable practice. Not only does this create extra work overall for the agency and NFC, this practice also destroys the audit trail on these transactions. OIG looks closely at all accounting adjustments we make, and OCFO is directing that we make as few of these adjustments as possible.